

Message Text

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ACTION EB-08

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TAGS: EFIN, JM
SUBJECT: IMF NEGOTIATIONS

1. SUMMARY: IN CONVERSATION WITH EMBASSY OFFICER,
A MEMBER OF THE IMF NEGOTIATING TEAM SUGGESTED THAT
THE FORM THAT AN AGREEMENT BETWEEN THE IMF AND THE
GOJ WOULD TAKE HAD STILL NOT BEEN FINALLY DECIDED
UPON BUT WOULD LIKELY BE AN EXTENDED
FUND FACILITY ARRANGEMENT. AN AGREEMENT IS NOT IMMINENT
AND WILL PROBABLY NOT BE CONCLUDED BEFORE THE MIDDLE
OF MAY, THE GOVERNMENT'S ANNOUNCED TARGET DATE. WHILE THERE ARE
NO MAJOR DISAGREEMENTS BETWEEN THE IMF TEAM
AND THE GOJ, A NUMBER OF INTERRELATED MACRO-ECONOMIC
POLICY ISSUES REMAIN TO BE THOUGHT THROUGH AND RESOLVED JOINTLY;
CONFIDENCE IN THE PRIVATE SECTOR WAS RECOGNIZED AS A KEY ISSUE AND
DISCUSSIONS ARE TAKING PLACE TO IDENTIFY SPECIFIC MEASURES THAT
COULD BE TAKEN TO RESOLVE THIS PROBLEM. FURTHER
ADJUSTMENTS IN THE EXCHANGE RATE MUST BE RECOGNIZED
AS A VERY SENSITIVE MATTER AS FURTHER DEVALUATIONS
(OR A FLOAT) MIGHT WELL GIVE RISE TO SUBSTANTIAL
WAGE DEMANDS THAT THE GOVERNMENT MIGHT BE UNABLE TO RESIST.

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THE AMOUNTS THAT WOULD BECOME AVAILABLE TO
THE GOJ UPON SIGNING THE AGREEMENT WOULD BE SDR 207
MILLION FROM THE IMF PLUS A POSSIBLE US\$150 MILLION
FROM OTHER DONORS IN THE FIRST YEAR. ANY NEW IMF
AGREEMENT WILL BE CONDITIONED ON THE USUAL SET OF
TARGETS AND GUIDELINES. END SUMMARY.

2. EMBASSY ECONOMIC OFFICER HAD OCCASION TO DISCUSS STATUS OF IMF NEGOTIATIONS WITH MR. OMAR ALBERTELLI, MEMBER OF IMF NEGOTIATING TEAM AND WITH MR. EWART WILLIAMS, IMF REPRESENTATIVE IN KINGSTON. MAIN POINTS MADE BY IMF REPRESENTATIVES WERE:

A. WHILE THE FORM THAT AN AGREEMENT BETWEEN THE IMF AND THE GOJ WOULD TAKE HAS STILL NOT BEEN FINALLY DECIDED UPON, IT WOULD LIKELY BE AN EXTENDED FUND FACILITY ARRANGEMENT. AN EFF IF MOST SUITABLE TO THE COUNTRY'S NEEDS AS IT IS A LONG TERM-THREE-YEAR-AGREEMENT THAT WOULD INVOLVE A MUCH LARGER FINANCIAL PACKAGE THAN A STAND-BY AND TAKE ACCOUNT OF THE COUNTRY'S GROWTH NEEDS. IN CONTRAST, A STAND-BY IS MORE NARROWLY FOCUSED ON IMMEDIATE BALANCE OF PAYMENTS ASSISTANCE.

B. MR. ALBERTELLI WOULD NOT VENTURE A GUESS AS TO WHEN AN AGREEMENT WOULD BE CONCLUDED. THE GOVERNMENT WAS AIMING AT MID MAY. HE INDICATED THAT THE DISCUSSIONS WERE FAR FROM COMPLETED AND THAT DECISIONS STILL HAD TO BE MADE ON A NUMBER OF ISSUES.

C. IN MR. ALBERTELLI'S VIEW, THERE WERE NO MAJOR DIFFERENCES BETWEEN THE GOVERNMENT'S PHILOSOPHY AND THAT OF THE IMF. GOVERNMENT OFFICIALS WERE BY NO LIMITED OFFICIAL USE

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MEANS OF ONE MIND AS TO WHAT SHOULD BE DONE. THERE WERE DIFFERENCES OF OPINION WITHIN THE GOJ. POLICY MAKERS WERE STILL IN THE PROCESS OF THINKING THINGS THROUGH WITH THE HELP OF THE IMF TEAM TO ARRIVE AT AN AGREED PROGRAM.

D. A WHOLE SET OF INTERRELATED MACRO-ECONOMIC POLICY ISSUES MUST BE ADDRESSED SIMULTANEOUSLY AND WERE BEING LOOKED AT BY THE GOJ AND THE IMF TEAM. FOR EXAMPLE, WHAT WAS THE MINIMAL LEVEL OF GOVERNMENT EXPENDITURES THAT THE GOVERNMENT COULD LIVE WITH, GIVEN THE UNEMPLOYMENT PROBLEM AND ITS COMMITMENTS IN THE SOCIAL AREA? WHAT LEVEL OF ECONOMIC ACTIVITY AND FISCAL REVENUE SHOULD BE PROJECTED OVER THE NEXT FEW YEARS? HOW WOULD THE FISCAL DEFICIT IMPACT ON THE PRICE LEVEL? WHAT SHOULD BE THE EXCHANGE RATE AND WHAT IMPACT WOULD ADJUSTMENTS IN THE EXCHANGE RATE HAVE ON WAGES? HOW MUCH ADDITIONAL DEBT COULD THE COUNTRY AFFORD AND WHAT WOULD BE THE IMPACT OF DEBT SERVICING ON THE BALANCE OF PAYMENTS? WHAT SHOULD BE DONE TO IMPROVE THE PRIVATE INVESTMENT CLIMATE?

E. THE IMPORTANCE OF CONFIDENCE IN THE PRIVATE SECTOR IS RECOGNIZED AS A KEY ISSUE. SUBSTANTIVE DISCUSSIONS ARE TAKING PLACE WITHIN THE GOJ ON SPECIFIC MEASURES THAT SHOULD BE TAKEN TO RESTORE THE PRIVATE SECTOR'S CONFIDENCE.

F. THE IMF WAS FLEXIBLE ON MATTERS SUCH AS EXCHANGE CONTROLS AND THE ADJUSTMENT OF THE EXCHANGE RATE. THE POSSIBILITY OF ABOLISHING OR LIBERALIZING EXCHANGE CONTROLS AND PERMITTING THE RATE TO FLOAT WAS ONE OF THE ALTERNATIVES BEING CONSIDERED, THOUGH MR. ALBERTELLI DID NOT APPEAR TO FAVOR IT PERSONALLY. HE DOUBTED THAT EXCHANGE CONTROLS COULD BE DISMANTLED AT THIS TIME OF CRISIS AND WAS AFRAID THAT THE FLOATING OF THE EXCHANGE LIMITED OFFICIAL USE

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RATE, OR A SUBSTANTIAL DEVALUATION, WOULD TRIGGER WAGE DEMANDS THAT THE GOVERNMENT WOULD NOT BE ABLE TO RESIST, THUS SETTING OFF AN UNCONTROLLABLE SPIRAL.

G. THE AMOUNTS THAT WOULD BECOME AVAILABLE UPON SIGNING OF THE AGREEMENT WOULD BE SDR 207 MILLION FROM THE IMF ITSELF (EQUIVALENT TO US\$254 MILLION) PLUS POSSIBLY \$150 MILLION FROM OTHER DONORS IN THE FIRST YEAR. ADDITIONAL AMOUNTS FROM OTHER DONORS WOULD BECOME AVAILABLE IN THE SECOND AND THIRD YEARS, THOUGH THE AMOUNTS WOULD TAPER OFF SUBSTANTIALLY AFTER THE FIRST YEAR OWING TO THE COUNTRY'S DIMINISHED ABILITY TO CONTRACT NEW LOANS AS DEBT SERVICING ROSE. (COMMENT: THUS, THE TOTAL PACKAGE OVER THREE YEARS FROM THE IMF AND OTHER DONORS MIGHT BE IN THE RANGE OF \$450 MILLION TO \$500 MILLION. THESE AMOUNTS REFER TO ADDITIONAL SPECIAL BALANCE OF PAYMENTS ASSISTANCE, EXCLUSIVE OF TRADITIONAL PROJECT ASSISTANCE).

H. WE CAN EXPECT THE NEW AGREEMENT TO BE CONDITIONED ON THE USUAL SET OF TARGETS AND GUIDELINES. (COMMENT: PAST EXPERIENCE SUGGESTS THAT THESE COULD INCLUDE LIMITS ON BANK CREDIT EXTENDED TO THE PUBLIC SECTOR AND ON NET DOMESTIC ASSETS OF THE BOJ, CHANGE IN NET FOREIGN EXCHANGE RESERVES, CEILINGS ON NEW INDEBTEDNESS AND GUIDELINES FOR WAGE INCREASES).

I. MR. ALBERTELLI NOTED THAT THE SUSPENSION OF THE IMF AGREEMENT NEGOTIATED LAST JULY SHOULD NOT BE INTERPRETED AS IMPLYING ANY FAULT-FINDING WITH THE POLICIES OF THE GOJ. WHAT HAPPENED WAS THAT THE PROGRAM DEVELOPED WAS FOUND TO BE UNWORKABLE AND THAT A NEW ONE, BETTER SUITED TO JAMAICA'S NEEDS, HAD TO BE DEVELOPED. LIMITED OFFICIAL USE

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